THE BOGEY OF THE "PATENT MONOPOLY"

By Gilbert H. Montague,
New York.

The natural hysteria over trusts has never been better illustrated than in the unreasoning criticism directed against the United States Supreme Court for its determination of the rights of patent owners in the recently decided Dick case.

Suddenly, without warning, and for the avowed purpose of stirring up Congress to change the existing patent law, Chief Justice White vehemently dissented from the decision of the court over which he presides; notwithstanding the fact that that decision is compelled by the constitutional provisions relating to patentable inventions and the statutes enacted in fulfilment of these provisions, and is supported by the overwhelming weight of authority of the courts of the United States, Great Britain and other English speaking countries.

The opinion in which the majority concurred, that stands as the opinion of the Supreme Court in the Dick case, was written by Justice Lurton, who probably has tried more important patent cases than any American judge now living. With him concurred Justice Holmes, Justice Van Devanter, whose experience in patent law while circuit judge was very thorough, and Justice McKenna, who four years ago wrote the opinion of the Supreme Court in the most important patent case of recent years—the Paper Bag case—with which opinion Chief Justice White, then an associate justice, entirely concurred. President Taft, when a circuit judge, sat with Judge Lurton and repeatedly concurred in Judge Lurton's opinions in patent matters. The majority opinion simply states the law as established by an unbroken line of previous decisions in the United States, in Great Britain and in every English speaking jurisdiction. With these decisions, Chief Justice White and Judge Taft, as their entire judicial records show, have heretofore been in absolute agreement.

The clamorous outcry, industriously instigated from Washington, that the chief justice and the other two dissenting justices are right,

and that the majority of the Supreme Court, trained by years of experience in patent law and supported by logic and the overwhelming weight of authority of this and every other English speaking country, are somehow wrong, is a practical application of "judicial recall" without even the safeguards which its staunchest advocates would throw around it.

This epoch-making decision of the Supreme Court arose out of the following facts:

The Dick Company owned patents covering a mimeograph. It sold to a certain Miss Skou a mimeograph, embodying the invention covered by these patents, subject, however, to a license, printed and attached to the machine and reading as follows:

LICENSE RESTRICTION

This machine is sold by the A. B. Dick Company with the license restriction that it may be used only with the stencil paper, ink and other supplies made by A. B. Dick Company, Chicago, U. S. A.

Mr. Henry's firm sold to Miss Skou some ink suitable for use upon this machine, with knowledge of this license restriction under which Miss Skou had bought the machine, and with the expectation that the ink would be used with this mimeograph. The question presented to the court was:

Did the acts of the Henry firm constitute contributory infringement of the Dick Company's patents?

The Supreme Court decided that these acts constituted contributory infringement.

Under Article I, Section 8, Subdivision 8, of the Federal Constitution, Congress has power "to promote the progress of science and useful arts by securing, for limited times, to authors and inventors, the exclusive right to their respective writings and discoveries."

Accordingly, Section 4884 of the Revised Statutes has been enacted, providing that a patent owner shall have "the exclusive right to make, use and vend the invention or discovery." This "exclusive right" is in effect three "exclusive rights," *i. e.*, the "exclusive right" to make, the "exclusive right" to use, and the "exclusive right" to sell the patented article.

Since the patent owner's "exclusive right" is composed of the "exclusive right" to make, the "exclusive right" to use, and the "exclusive right" to sell the patented invention, the patent owner may, according as he sees fit, dispose of one, or more, or any part

of these component "exclusive rights." Thus, when he elects to manufacture the patented article himself, he reserves to himself the "exclusive right" to make, and disposes simply of all or part of the "exclusive rights" to use and to sell the patented article. Again, if he elects not to sell the patented article, but simply to lease it on a royalty basis, he reserves to himself the "exclusive rights" to make and to sell, and disposes simply of the right of use. Similarly, if he elects to dispose of only part of the "exclusive right" to use the patented article, he may reserve to himself the "exclusive rights" to make and sell the patented article, and also part of the "exclusive right" of use, and may dispose of simply a portion of his "exclusive right" of use, by granting merely a limited right of use; simply, for instance, the right to use the patented article only under such conditions and only with such supplies as the patent owner shall prescribe.

Like the owner of any other property the patent owner "cannot be compelled to part with his own except on inducements to his liking." Like the owner of unimproved real estate, the patent owner may decline to use his invention, or to allow others to use it. Like a real estate owner who prefers to continue as owner, the patent owner may reserve to himself the right of ownership and sale, and, by lease or otherwise, simply dispose of part of the right to use the property. Like every real estate owner that is a landlord, the patent owner may require that his property be used only under certain specified conditions, and for certain specified purposes, and with certain specified accessories.

The rights of the patent owner are neither greater nor more unusual than the familiar rights of the real estate owners or other property owners. Indeed, the patent owner's rights are vastly curtailed, as contrasted with the rights of other property owners, in that the owners of every other form of property may exercise those rights above described for so long a period as they and their successors may desire, while the patent owner may exercise none of his rights beyond the duration of his patent, and at the expiration of the statutory period of seventeen years must relinquish to the public all of his rights.

Briefly, the Supreme Court decided in the Dick case that:

Patent rights are directly derived from the Federal Constitution.

The patentee has the exclusive right to make, sell and use the

patented article. Like the owner of any other property, he may sell or dispose of his property upon any reasonable condition.

The patentee may sell or dispose of the patented article on condition that the purchaser use only such accessories as are made by the patentee, provided that at the time the patentee sells the patented article to the purchaser "the purchaser must have notice that he buys with only a qualified right of use."

The public is free to take or refuse the patented article on the terms imposed. If the terms are too onerous, the public loses nothing, for it may decline to buy or use the patented article; and when the patent expires the public will be free to use the invention without compensation or restriction.

In affirming these propositions, the Supreme Court stated plain, common, business sense, and also long settled principles of law, in reliance upon which enormous business interests have been established.

The court explains its meaning and compacts the kernel of its decision in these words:

> A license is not an assignment of any interest in the patent. It is a mere permission granted by the patentee. It may be a license to make, sell or use, or it may be limited to any one of these separable rights. If it be a license to use, it operates only as a right to use without being liable as an infringer. If a licensee be sued, he can escape liability to the patentee for the use of his invention by showing that the use is within his license. But if his use be one prohibited by the license, the latter is of no avail as a defense. As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee. Robinson on Patents, secs. 806, 808.
>
> We repeat. The property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded. The right to sever ownership and use is deducible from the nature of a patent monopoly and is recognized in the cases.

Having decided that the patentee may "subdivide his exclusive right of use when he makes and sells a patented device," the Supreme Court next lays down the proposition that "the extent of the license to use, which is carried by the sale, must depend upon whether

any restriction was placed upon the use, and brought home to the person acquiring the article." The court elaborates this point:

To begin with, the purchaser must have notice that he buys with only a qualified right of use. He has a right to assume, in the absence of knowledge, that the seller passes an unconditional title to the machine, with no limitations upon the use. Where then, is the line between a lawful and an unlawful qualification upon the use? This is a question of statutory construction. But with what eye shall we read a meaning into it? It is a statute creating and protecting a monopoly. It is a true monopoly, one having its origin in the ultimate authority, the Constitution. Shall we deal with the statute creating and guaranteeing the exclusive right which is granted to the inventor with the narrow scrutiny proper when a statutory right is asserted to uphold a claim which is lacking in those moral elements which appeal to the normal man? Or shall we approach it as a monopoly granted to subserve a broad public policy, by which large ends are to be attained and, therefore, to be construed so as to give effect to a wise and beneficial purpose? That we must neither transcend the statute, nor cut down its clear meaning, is plain.

After emphasizing the fact that this constitutional monopoly "extends to the right of making, selling and using, and these are separable and substansive rights," the court quotes with approval its language in *Bement* v. *National Harrow Company*, to the effect that the Sherman Act "clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the assignee or licensee of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded thereof."

Chief Justice White, in his dissenting opinion, declares that the Dick decision tends "to extend the patent so as to cause it to embrace things which it does not include," and permits the patent owner "to extend his patent rights so as to bring within the claim of his patent interests which are not embraced therein, thus virtually legislating by causing the patent laws to cover subjects to which without the exercise of the right of contract they could not reach." The Supreme Court, in the majority opinion, completely answers this contention. The court says:

But it has been very earnestly said that a condition restricting the buyer to use it only in connection with ink made by the patentee is one of a character which gives to a patentee the power to extend his monopoly so as to cause it to embrace any subject, not within the patent, which he chooses to require that the invention shall be used in connection with. Of course the argument does not mean that the effect of such a condition is to cause things to become patented which were not

so without the requirement. The stencil, the paper and the ink made by the patentee will continue to be unpatented. Anyone will be as free to make, sell and use like articles as they would be without this restriction, save in one particular—namely, they may not be sold to a user of one of the patentee's machines with intent that they shall be used in violation of the license. To that extent competition in the sale of such articles for use with the machine, will be affected; for sale to such users for infringing purposes will constitute contributory infringement. But the same consequence results from the sale of any article to one who purposes to associate it with other articles to infringe a patent, when such purpose is known to the seller. But could it be said that the doctrine of contributory infringement operates to extend the monopoly of the patent over subjects not within it because one subjects himself to the penalties of the law when he sells unpatented things for an infringing use? If a patentee say, "I may suppress my patent if I will. I may make and have made devices under my patent, but I will neither sell nor permit anyone to use the patented things," he is within his right and none can complain. But if he says, "I will sell with the right to use only with other things proper for using with the machines, and I will sell at the actual cost of the machines to me, provided you will agree to use only such articles as are made by me in connection therewith," if he chooses to take his profit in this way, instead of taking it by a higher price for the machine, has he exceeded his exclusive right to make, sell and use his patented machines? The market for the sale of such articles to the users of his machine, which, by such a condition, he takes to himself, was a market which he alone created by the making and selling of a new invention. Had he kept his invention to himself, no ink could have been sold by others for use upon machines embodying that invention. By selling it subject to the restriction he took nothing from others and in no wise restricted their legitimate market.

The all-important circumstance, which Chief Justice White overlooks, that no license restriction is enforceable under the law as laid down by the Supreme Court, unless the restriction is "*brought home to the person acquiring the article*" *at the time the article is acquired.* To make a license restriction enforceable, the purchaser must have notice that he buys with only a qualified right of use. The notion engendered by Chief Justice White's dissenting opinion that Henry would have been held as an infringer if Miss Skou or any other user of the Dick mimeograph had bought Henry's ink at a corner drug store, has absolutely no foundation in fact. The infringement in the Dick case, as the Supreme Court expressly held, consisted in the fact that Henry, knowing of the license restriction, and with the expectation and intention that his ink would be used for the purpose of violating this license restriction, incited Miss Skou, intentionally and deliberately to violate the license restriction—to which Miss Skou, as Henry well knew, had expressly assented when she acquired

the mimeograph—and supplied Miss Skou with the means of accomplishing this wrongful act. Indeed, the court below expressly found that Henry deliberately and knowingly instigated Miss Skou to this wrongful act and even instructed her that if she would pour Henry's ink into Dick's can and throw away Henry's can, she would not be caught violating the license restriction.

The bogey of "monopoly" in non-patented supplies comprehended within license restrictions covering patented articles has many times been dispelled by the courts.

In 1896, in a decision of the Circuit Court of Appeals for the Sixth Circuit, in which Judge Lurton, now associate justice of the Supreme Court, who wrote for the Supreme Court the majority opinion in the Dick case, and Judge Taft, now President of the United States, both participated and concurred, the bugbear of monopoly in respect to non-patented supplies required by license restrictions like those above described was effectually exploded. The court showed that this so-called monopoly, far from offending against public policy, was a positive benefit, for the patent owner could accomplish this result only as he could "make and sell an unpatentable product cheaper than any other competitor;" and "the great consuming public would be benefited rather than injured," for this so-called monopoly could endure only so long as the product turned out with the patented invention and these supplies was "supplied at a less price than had prevailed before the invention."

The same doctrine has repeatedly been laid down by the courts of Great Britain. Only last year, by a unanimous decision of the Lords of the Judicial Committee of the Privy Council, in a decision which determined the law for the entire British Empire, the principles of the Dick case were anticipated and completely accepted. How firmly these principles are established in the law appears from this quotation from one of the leading English decisions:

> The sale of a patented article carries with it the right to use it in any way that the purchaser chooses to use it, unless he knows of restrictions. Of course, if he knows of restrictions and they are brought to his mind at the time of the sale, he is bound by them. He is bound by them on this principle: The patentee has the sole right of using and selling the articles, and he may prevent anybody from dealing with them at all. Inasmuch as he has the right to prevent people from using them or dealing in them at all, he has the right to do the lesser thing; that is to say, to impose his own conditions. . . . It does not matter what they are if he says at the time when the purchaser proposes to buy or the person to

take a license: "Mind, I only give you this license on this condition," and the purchaser is free to take it or leave it as he likes. If he takes it, he must be bound by the conditions. It seems to be common sense, and not to depend upon any patent law or any other particular law.

Common sense, therefore, no less than the authorities of the innumerable courts that have quoted this decision, supports this reasoning of Judge Lurton and Judge Taft. As a hard-headed Massachusetts judge well expressed it, since the patent owner might stipulate either for an outright price or for a royalty collected out of the profit that he would make in furnishing supplies at an agreed price for use in the patented machine, "the purchaser, who could not obtain the machine at all, except upon such terms as the owner should choose to impose, might as well agree to pay for it in that way as in any other."

To suggest that such a system tends to create a monopoly in non-patented supplies is absurd. If the patent owner chooses to take his profit in this way, instead of charging a higher price for his patented article, no one is harmed. Granted that he takes to himself a portion of the market for such non-patented supplies. The portion of the market that he so takes is simply the portion that he alone created, by making and selling his own invention. Obviously, had he not made and sold his invention, no one could sell supplies for use in connection with it. By requiring that his own non-patented supplies be used with his own patented invention, the patent owner is taking nothing which in the absence of his patented invention would belong to other manufacturers of such supplies.

From the beginning of the patent system, patent owners have been accustomed to realize the value of their patents by granting to others, for an outright price or upon terms of instalment payments, licenses to manufacture, licenses to sell and licenses to use, either together or separately. Essentially these licenses are all similar. In order to secure one or more of these licenses, to exercise one or more, or a part of one of the "exclusive rights" to which the patent owner is entitled, the licensee, in each case, agrees to recompense the patent owner. The only difference is in the mode and terms of recompense.

When the licensee is required to pay a sum in cash outright, in order to acquire the right to use the patented article, the patent owner is compensated, without regard to whether or not the licensee exer-

cises the right to use the patented article. When the licensee is required to pay a fixed sum periodically in the form of rental, the same result follows. In both instances, what the licensee is required to pay bears no direct relation to the amount of benefit which the licensee derives from exercising the right to use the patented article.

To avoid this result, various license plans have been devised, primarily for the benefit of the licensee, under which the recompense that the patent owner receives, in consideration of giving the licensee the right to use the patented article, depends entirely on the amount of benefit which the licensee derives from exercising such right.

The most familiar plan is that under which the licensee pays to the patent owner a royalty in proportion to the output produced by the use of the patented article. Under this plan, the licensee obtains physical possession of the patented article, together with the right to use it upon the conditions of the license, but is not obliged to pay to the patent owner anything for this right of use unless he actually exercises it; and if he uses the patented article at all, he compensates the patent owner strictly in exact proportion to the efficiency of the patented article and to the benefit that he derives from its use.

Under such a license plan, some means must be devised to register the extent to which the licensee uses the patented article. A frequent measure is the number of articles that the machine produces. When the amount of use or output can accurately, inexpensively and conveniently be measured, either by a register or by an inspection or accounting, this mode of determining the amount of royalty is generally adopted.

In the case of innumerable patented articles, however, like the mimeograph in the Dick case, there is no accurate or convenient mode of recording the amount of use or output and any inspection or accounting for that purpose would be impracticable and prohibitively expensive. A true measure of the amount of use and output is the material used with the patented article. When, as in the case just described, the amount of this material cannot accurately, inexpensively or conveniently be measured, inspected or accounted for, while it is on the machine, or after it has left the machine, it must be measured before it reaches the machine.

By requiring the user of the patented article to obtain such material from a single source, the patent owner ensures the means of

accurately, inexpensively and conveniently measuring the amount of the use and output of the patented article and collecting the royalty so determined, by charging for such supplies a sum sufficient to cover their cost, and also an additional amount in the nature of royalty for the use of the patented article. As regards many patented articles which otherwise could be sold only in small numbers, at a large outright purchase price, no other means of determining a royalty, based upon the amount of use and output, can be devised.

Under this plan, the money burden upon the licensee does not fall upon him all at one time, like the necessity of paying at the outset a large purchase price, but is distributed over a period sufficient to enable him to derive, from the use of the patented article, the means of compensating the patent owner.

Besides these obvious considerations, any one of which alone sufficiently justifies such a license restriction as was presented in the Dick case, there are other considerations which, in a larger view, are even more controlling.

The satisfactory operation of the patented article may, and in many cases does, entirely depend upon its use with specially prepared supplies, or in continuity with other specially adapted machines, or in some particular manner.

An electrical appliance, adapted for use with a particular kind of battery, might be very effective when so used—in which case its usefulness to the licensee would be considerable, and its commercial value to the patent owner would be correspondingly gratifying; while if used with another kind of battery, it might be ineffective—in which case its usefulness to the licensee would be slight and its commercial value to the patent owner would be disappointing. A license requiring that the appliance be used only with the battery specially adapted to it guarantees the highest degree of usefulness to the user, and assures to the patent owner the commercial value of the patented article to which he is justly entitled.

A patented machine, used in manufacture, may be contrived, with great nicety, to take the partly finished product as it leaves another machine, and to continue the process of manufacture for another stage from that point, and then to turn it over to another machine which continues the manufacture from that point. This particular machine, it is obvious, must be accurately adjusted, so as to supplement precisely the work done by the machine that immedi-

ately precedes it in the manufacturing process, and to match exactly the requirements of the machine that will immediately take up the work at the point where it leaves off. The satisfactory operation of the particular machine in question may, and in actual instances frequently does, entirely depend upon the nicety, accuracy and precision with which it is adapted to the machine that immediately precedes it, and to the machine that immediately follows it in the manufacturing process. Unless the machine that precedes it is accurately adapted to bring the half-finished product into just the condition necessary for satisfactory operation upon the particular machine in question, the operation of the latter machine will be unsatisfactory; and the results to the user and to the owner of the patents covering that particular machine will be correspondingly disastrous. Similarly, unless the machine that immediately follows in the manufacturing process is precisely adapted to take the half-finished product in just the condition that it leaves the particular machine, it will inadequately supplement the work that has previously been done, and will wholly or in part prevent the successful result to which the satisfactory operation of this particular machine has fully contributed.

Instances of ingenious and delicate machines, each nicely adapted to perform one stage of a manufacturing process, and together, as an industrial series, nicely, accurately and precisely adjusted to take the raw materials through the successive stages in the process of manufacture until the finished product is eventually turned out may be found in many highly developed manufacturing industries.

As to any patented article of the class of particular types of machines just described, it is obviously proper that the patent owner, in order to insure satisfactory results to the user, and to preserve for himself such commercial value as accrues from the assured satisfactory operation of his machine, may require that the machine be used only with such specially adapted machines and in such particular manner as will insure satisfactory results to the user.

The notion that the patent owner owes the duty to the community of allowing every user of the patented article to experiment with any supplies that the user can find, or to use, in any manner that the user can think of, a patented machine that has been delicately contrived for just one particular use, has no support whatsoever in law or in reason.

Patent owners have an interest in the standing, reputation and

commercial desirability of their patented articles, and may insist upon such conditions, in respect to their use by their customers, as shall insure to the customers, no less than to the patent owners and to all prospective customers, the standing, reputation and commercial desirability of the patented article.

To suggest that the user of the patented article has some kind of natural right to experiment, as much as he likes, with unauthorized supplies, is as ridiculous as to suggest that a tenant has a God-given right to use his landlord's premises in any manner that violates the condition of the lease.

The only reward to those who bear the burden of perfecting the inventions which make possible the progress of the race is the protection afforded by the patent system. The Constitution provides that the inventors who develop their inventions at their own risk and by their own labor and expenditure shall "for limited times" have the "exclusive right" to their own creations. By restricting this limited time to seventeen years, Congress has removed the possibility of oppressive monopoly.

Any proposal to abridge the reward for invention involves the welfare and very existence of the entire community. During the present century the new fields which invention can open must necessarily be fewer than those opened by the brilliant series of pioneer inventions in the century just past. Future inventions will require greater effort and, consequently, rewards which shall certainly be no less than those afforded by the laws and decisions that compose the present patent system. On every hand it is conceded that the efficiency of human institutions must be increased in order to cope with the increasing difficulties of existence. The most important agency for this purpose is invention as fostered by the present patent system. Nothing could be more reckless than to cripple at this time the chief force engaged in solving the problems of civilization. For the future of American industries, and the welfare of the entire country, it is hoped that a correct understanding of the tremendous importance of the present patent system may cure the disrespect of patent rights implied in the hostile comment directed against the recent decision of the Supreme Court and implied in the changes of the patent law proposed by Congress.